

Jackson County, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
March 31, 2004**

AUDITING PROCEDURES REPORT

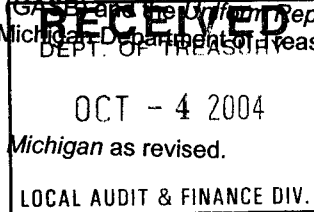
Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Spring Arbor Township	County Jackson
Audit Date March 31, 2004	Opinion Date June 16, 2004	Date Accountant Report Submitted to State: September 29, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature <i>Rehmann Robson</i>		Zip 48605	

TOWNSHIP OF SPRING ARBOR

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

June 16, 2004

Board of Trustees
Township of Spring Arbor
Spring Arbor, Michigan

We have audited the accompanying general purpose financial statements of the **TOWNSHIP OF SPRING ARBOR**, as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above, present fairly, in all material respects, the financial position of the Township of Spring Arbor as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Township of Spring Arbor. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Rehmann Lohorn

GENERAL PURPOSE FINANCIAL STATEMENTS

SPRING ARBOR TOWNSHIP
Combined Balance Sheet
All Fund Types and Account Group
March 31, 2004

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group</u>	<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Trust & Agency</u>	<u>General Fixed Assets</u>	<u>(Memorandum Only)</u>
<u>ASSETS</u>						
Assets						
Cash and cash equivalents	\$ 59,588	\$ 131,190	\$ 273,334	\$ 12,270	\$ -	\$ 476,382
Investments	196,593	131,697	-	-	-	328,290
Receivables:						
Taxes	7,494	8,771	-	-	-	16,265
Special assessments	-	2,051	-	-	-	2,051
User fees	-	-	10,143	-	-	10,143
Connection fees	-	-	800	-	-	800
Delinquent user and connection fees	-	-	5,658	-	-	5,658
Due from other funds	11,141	-	-	-	-	11,141
Due from other governments	83,967	-	-	-	-	83,967
Restricted cash and cash equivalents	-	-	1,225,842	-	-	1,225,842
Fixed assets, net	-	-	4,347,872	-	2,928,432	7,276,304
<u>TOTAL ASSETS</u>	<u>\$ 358,783</u>	<u>\$ 273,709</u>	<u>\$ 5,863,649</u>	<u>\$ 12,270</u>	<u>\$ 2,928,432</u>	<u>\$ 9,436,843</u>
<u>LIABILITIES AND FUND EQUITIES</u>						
Liabilities						
Accounts payable	\$ 161	\$ 175	\$ 28,679	\$ -	\$ -	\$ 29,015
Deposits payable	500	-	-	-	-	500
Due to other funds	-	11,141	-	-	-	11,141
Total liabilities	661	11,316	28,679	-	-	40,656
Fund Equities						
Contributed capital	-	-	2,967,231	-	-	2,967,231
Investment in general fixed assets	-	-	-	-	2,928,432	2,928,432
Retained earnings:						
Reserved for replacement and improvements	-	-	1,225,842	-	-	1,225,842
Unreserved	-	-	1,641,897	-	-	1,641,897
Fund balances:						
Reserved for restricted contributions	11,133	-	-	-	-	11,133
Reserved for endowment	-	-	-	12,270	-	12,270
Unreserved - undesignated	346,989	262,393	-	-	-	609,382
Total fund equities	358,122	262,393	5,834,970	12,270	2,928,432	9,396,187
<u>TOTAL LIABILITIES AND FUND EQUITIES</u>	<u>\$ 358,783</u>	<u>\$ 273,709</u>	<u>\$ 5,863,649</u>	<u>\$ 12,270</u>	<u>\$ 2,928,432</u>	<u>\$ 9,436,843</u>

The accompanying notes are an integral part of these financial statements.

SPRING ARBOR TOWNSHIP
Combined Statement of Revenue, Expenditures,
and Changes in Fund Balances
All Governmental Fund Types
For the Year Ended March 31, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Revenue			
Taxes	\$ 132,645	\$ 155,261	\$ 287,906
Special assessments	-	33,733	33,733
Licenses and permits	1,998	86,237	88,235
State shared revenue	558,273	-	558,273
Contributions	1,500	-	1,500
Interest and other revenue	130,623	13,511	144,134
	<u>825,039</u>	<u>288,742</u>	<u>1,113,781</u>
Total revenue			
	<u>825,039</u>	<u>288,742</u>	<u>1,113,781</u>
Expenditures			
Current:			
Legislative	29,737	-	29,737
General government	333,980	-	333,980
Public safety	211,386	267,426	478,812
Public works	991	32,141	33,132
Recreational and cultural	51,332	-	51,332
Capital outlay	-	466,666	466,666
	<u>627,426</u>	<u>766,233</u>	<u>1,393,659</u>
Total expenditures			
	<u>627,426</u>	<u>766,233</u>	<u>1,393,659</u>
Revenue over (under) expenditures	<u>197,613</u>	<u>(477,491)</u>	<u>(279,878)</u>
Other financing sources (uses)			
Operating transfer in	-	186,624	186,624
Operating transfer (out)	(186,624)	-	(186,624)
	<u>(186,624)</u>	<u>186,624</u>	<u>-</u>
Total other financing sources (uses)			
	<u>(186,624)</u>	<u>186,624</u>	<u>-</u>
Revenue and other sources over (under) expenditures and other (uses)	10,989	(290,867)	(279,878)
Fund balances, beginning of year	<u>347,133</u>	<u>553,260</u>	<u>900,393</u>
Fund balances, end of year	<u>\$ 358,122</u>	<u>\$ 262,393</u>	<u>\$ 620,515</u>

The accompanying notes are an integral part of these financial statements.

SPRING ARBOR TOWNSHIP
Combined Statement of Revenue, Expenditures,
and Changes in Fund Balances - Amended Budget and Actual
All Governmental Fund Types
For the Year Ended March 31, 2004

	General Fund		
	Amended Budget	Actual	Variance - Favorable (Unfavorable)
Revenue			
Taxes	\$ 134,200	\$ 132,645	\$ (1,555)
Special assessments	-	-	-
Licenses and permits	2,000	1,998	(2)
State shared revenue	573,950	558,273	(15,677)
Contributions	-	1,500	1,500
Interest and other revenue	134,100	130,623	(3,477)
Total revenue	844,250	825,039	(19,211)
Expenditures			
Current:			
Legislative	36,386	29,737	6,649
General government	384,529	333,980	50,549
Public safety	242,700	211,386	31,314
Public works	1,000	991	9
Recreational and cultural	69,376	51,332	18,044
Capital outlay	-	-	-
Total expenditures	733,991	627,426	106,565
Revenue over (under) expenditures	110,259	197,613	87,354
Other financing sources (uses)			
Operating transfer in	-	-	-
Operating transfer (out)	(291,042)	(186,624)	104,418
Total other financing sources (uses)	(291,042)	(186,624)	104,418
Revenue and other sources over (under) expenditures and other (uses)	(180,783)	10,989	191,772
Fund balances, beginning of year	347,133	347,133	-
Fund balances, end of year	\$ 166,350	\$ 358,122	\$ 191,772

The accompanying notes are an integral part of these financial statements.

Special Revenue Funds

Amended Budget	Actual	Variance - Favorable (Unfavorable)
\$ 156,000	\$ 155,261	\$ (739)
35,900	33,733	(2,167)
83,800	86,237	2,437
-	-	-
-	-	-
2,019	13,511	11,492
277,719	288,742	11,023
-	-	-
-	-	-
301,554	267,426	34,128
33,000	32,141	859
-	-	-
496,874	466,666	30,208
831,428	766,233	65,195
(553,709)	(477,491)	76,218
601,745	186,624	(415,121)
-	-	-
601,745	186,624	(415,121)
48,036	(290,867)	(338,903)
553,260	553,260	-
<u>\$ 601,296</u>	<u>\$ 262,393</u>	<u>\$ (338,903)</u>

SPRING ARBOR TOWNSHIP
Combined Statement of Revenue, Expenses, and Changes
in Retained Earnings/Fund Balance -
Proprietary Fund Type and Similar Trust Fund
For the Year Ended March 31, 2004

	Proprietary Fund Type Enterprise Funds	Fiduciary Fund Type Nonexpendable Trust Fund	Total (Memorandum Only)
Operating revenue			
Connection fees	\$ 102,970	\$ -	\$ 102,970
User fees	497,061	-	497,061
Penalties	10,373	-	10,373
Contributions	-	4,500	4,500
Other revenue	2,972	98	3,070
Total operating revenue	<u>613,376</u>	<u>4,598</u>	<u>617,974</u>
Operating expenses			
Administrative fees	20,386	-	20,386
Pension	1,007	-	1,007
Office expenses	2,526	-	2,526
Professional services	33,838	-	33,838
Insurance and bonds	6,459	-	6,459
Utilities	49,602	-	49,602
Water usage	111,861	-	111,861
Treatment charges	207,096	-	207,096
Maintenance	201,368	1,500	202,868
Depreciation	214,790	-	214,790
Other	36,282	-	36,282
Total operating expenses	<u>885,215</u>	<u>1,500</u>	<u>886,715</u>
Operating income (loss)	<u>(271,839)</u>	<u>3,098</u>	<u>(268,741)</u>
Non-operating revenue (expenses)			
Interest revenue	28,829	-	28,829
Interest expense	(1,327)	-	(1,327)
Total non-operating revenue	<u>27,502</u>	<u>-</u>	<u>27,502</u>
Net income (loss) before capital contributions	(244,337)	3,098	(241,239)
Capital contributions	<u>242,281</u>	<u>-</u>	<u>242,281</u>
Net income (loss)	(2,056)	3,098	1,042
Adjustments to net loss			
Add-back of depreciation on assets acquired with capital grants	<u>135,133</u>	<u>-</u>	<u>135,133</u>
Increase (decrease) in retained earnings	133,077	3,098	136,175
Retained earnings/fund balance, beginning of year	<u>2,734,662</u>	<u>9,172</u>	<u>2,743,834</u>
Retained earnings/fund balance, end of year	<u><u>\$ 2,867,739</u></u>	<u><u>\$ 12,270</u></u>	<u><u>\$ 2,880,009</u></u>

The accompanying notes are an integral part of these financial statements.

SPRING ARBOR TOWNSHIP
Combined Statement of Cash Flows
Proprietary Fund Type and Similar Trust Fund
For the Year Ended March 31, 2004

	Proprietary Fund Type Enterprise Funds	Fiduciary Fund Type Nonexpendable Trust Fund	Total (Memorandum Only)
Cash flows from operating activities			
Operating income (loss)	\$ (271,839)	\$ 3,098	\$ (268,741)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	214,790	-	214,790
Changes in assets and liabilities:			
Receivables	888	-	888
Accounts payable	1,034	-	1,034
Net cash provided (used) by operating activities	<u>(55,127)</u>	<u>3,098</u>	<u>(52,029)</u>
Cash flows from capital and related financing activities			
Purchase of fixed assets	(242,281)	-	(242,281)
Principal paid on bonds payable	(25,000)	-	(25,000)
Interest paid on bonds payable	(1,250)	-	(1,250)
Proceeds from capital contributions	242,281	-	242,281
Net cash (used) by capital and related financing activities	<u>(26,250)</u>	<u>-</u>	<u>(26,250)</u>
Cash flows from investing activities			
Interest received on investments	28,752	-	28,752
Net increase (decrease) in cash and cash equivalents	(52,625)	3,098	(49,527)
Cash and cash equivalents, beginning of year	1,551,801	9,172	1,560,973
Cash and cash equivalents, end of year	<u><u>\$ 1,499,176</u></u>	<u><u>\$ 12,270</u></u>	<u><u>\$ 1,511,446</u></u>
Balance sheet classification of cash and cash equivalents			
Cash and cash equivalents	\$ 273,334	\$ 12,270	\$ 285,604
Restricted cash equivalents	1,225,842	-	1,225,842
Subtotal	<u><u>\$ 1,499,176</u></u>	<u><u>12,270</u></u>	<u><u>\$ 1,511,446</u></u>

Non-cash transactions

During the year, the Township received donated sewer and water lines from contractors in the amount of \$170,625 and \$71,656, respectively. These transactions did not involve cash.

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Spring Arbor, Michigan (the "Township") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

REPORTING ENTITY

The Township has determined that no entities should be consolidated into its general purpose financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the Township. Therefore, the Township's reporting entity consists only of the primary government.

FUND ACCOUNTING

The accounts of the Township are organized on the basis of funds and an account group, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into fund types, broad fund categories and an account group as follows:

GOVERNMENTAL FUNDS

General Fund:

The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds:

Special Revenue Funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administration action.

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

PROPRIETARY FUNDS

Enterprise Funds:

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Township applies all applicable pronouncements of the Financial Accounting Standards Board issued before November 30, 1989 in accounting and reporting for its Enterprise Fund operations.

FIDUCIARY FUNDS

Agency Fund:

Agency Funds are used to account for assets held by the Township in an agency capacity for individuals, private organizations, other governmentals and/or other funds. The Township has one Agency Fund.

Nonexpendable Trust Fund:

This fund accounts for resources that are available for the maintenance of all Historical Committee projects. The principal of these funds is not to be distributed; only the investment income can be spent.

ACCOUNT GROUP

General Fixed Assets:

This account group is used to account for all fixed assets of the Township, except those accounted for in Proprietary Funds.

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation since interfund eliminations have not been made in the aggregation of this data.

BASIS OF ACCOUNTING

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when received in cash, except for those susceptible to accrual, which are recorded as receivables when they become both measurable and available to finance expenditures of the current period. Significant revenues susceptible to accrual include property taxes, reimbursement type grants and charges for services.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred provided the liability normally would be liquidated with expendable available financial resources. The major exception to this general rule is principal and interest on general long-term debt which is generally recognized when due.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus. This means that generally only current assets and current liabilities are included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

Governmental fund operating statements present increases (revenues and other financial sources) and decreases (expenditures and other financial uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

All proprietary funds are accounted for on a cost of services or "economic resources" measurement focus. This means that all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total assets.

The nonexpendable trust fund is accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The nonexpendable trust fund accounts for assets of which the principal may not be spent.

BUDGETARY ACCOUNTING

Operating budgets are adopted at the functional level for all governmental fund types each fiscal year on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis. Reported budgeted amounts are as originally adopted or as amended by the Township Board. The Township does not utilize a formal encumbrance system.

CASH AND CASH EQUIVALENTS

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposits with original maturities of three months or less.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

INVESTMENTS

Investments are stated at fair value, which approximates cost.

RECEIVABLES

All receivables are reported at their net value by being reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund receivables/payables".

INVENTORY

Inventory, if any, is valued at cost using the first-in/first-out (FIFO) method.

FIXED ASSETS

General fixed assets are recorded as expenditures in the applicable funds at the time of purchase and are accounted for in the General Fixed Asset Group of Accounts. All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated. No depreciation has been provided on general fixed assets.

Fixed assets in Proprietary Funds are recorded at cost and depreciation is provided on the cost of the fixed assets over their estimated service lives on a straight-line basis. The following ranges of estimated lives are used:

	<u>Years</u>
Water and Sewer Systems	30-50
Equipment	5-15

LONG-TERM OBLIGATIONS

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations, if any, would be reported in the general long-term debt account group. As of March 31, 2004, the Township has no outstanding general long-term debt. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

FUND EQUITY

Contributed capital is recorded in Proprietary Funds that have received capital grants or contributions from other governmental entities, developers, customers, or other funds prior to April 1, 2001. Reserves represent those portions of fund equity not appropriated for expenditure or legally segregated for a specific future use. Designated fund equity represents tentative plans for future use of financial resources.

PENSION PLAN FUNDING

The Township's policy is to fund pension costs as they accrue.

INTERFUND TRANSACTIONS

During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers. The amounts recorded as subsidies, advances, or equity contributions are determined by Township management.

ACCUMULATED VACATION AND SICK LEAVE

Annually, the Township grants one week of paid vacation after six months of employment, two weeks after one year employment, three weeks after five years employment, and four weeks after ten years employment. Employees are entitled to one sick day per month, cumulative to fifteen days. Vacation and sick days cannot be carried over and, therefore, are not accrued in the accompanying financial statements.

RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2004, the government carried commercial insurance to cover all risks of losses. The government had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Township were adopted on an activity level basis, which is the legal level of control.

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

During the year ended March 31, 2004, the Township incurred expenditures in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
General Fund:			
General Government:			
Maintenance Building	\$ 1,300	\$ 1,703	\$ 403
Public Works:			
Private Streets and Roads	200	240	40

3. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the combined balance sheet is as follows:

Cash and cash equivalents	\$ 476,382
Investments	328,290
Restricted cash and cash equivalents	<u>1,225,842</u>
	<u>\$2,030,514</u>

Cash and investments are classified as follows for risk categorization purposes:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 703,336
Governmental cash management fund	1,326,578
Cash on hand	<u>600</u>
	<u>\$2,030,514</u>

At year end, the Township's carrying amount of deposits was \$703,336 and the bank balance was \$786,200. Of the bank balance, \$600,142 was covered by federal depository insurance. The remaining balance of \$186,058 as uninsured and uncollateralized.

Investments are categorized for purposes of credit risk as either (1) insured or registered, or securities held by the government or its agent in the government's name, (2) uninsured or unregistered, with securities held by the counterparty's trust department or agent in the government's name, or (3) uninsured or unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

The Township's investment balances at year end, which were all uncategorized and stated at fair value, were as follow:

	Fair Value/ Carrying <u>Amount</u>
Investments not subject to categorization:	
Governmental cash management fund	<u>\$ 1,326,578</u>

4. PROPERTY TAXES

Real and personal property taxes are recorded as revenue in the year for which they are levied, provided they are collectible during that year or within 60 days following that year's end. Property tax revenues shown in the General Fund and Fire Millage Special Revenue Fund reflect the 2003 Township levies of .9005 mills and 1.0539 mills, respectively, on the taxable valuation of property located in the Township as of the preceding December 31. Taxable values are established annually by the County and are equalized by the State at an estimated 50% of current market value or \$146,579,832. The 2003 levy became a lien on properties on December 1, 2003, and was substantially collected in early 2004. Taxes became delinquent on March 1, 2004.

The Fire Millage Fund was established in fiscal year 2001 to provide resources for the operations of the Township's fire department. The operations of the fire department have historically been accounted for in the Township's General Fund, but are reported in the Fire Millage Special Revenue Fund beginning with fiscal year 2002.

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

5. FIXED ASSETS

Changes in the components of fixed assets in the Enterprise funds are summarized as follows:

	Balance April 1, <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance March 31, <u>2004</u>
Land	\$ 39,098	\$ -	\$ -	\$ 39,098
Sewer Plant	5,530,559	170,625	-	5,701,184
Water Plant	2,378,690	71,656	-	2,450,346
Equipment	<u>257,610</u>	<u>-</u>	<u>-</u>	<u>257,610</u>
Total	8,205,957	<u>\$ 242,281</u>	<u>\$ -</u>	8,448,238
Less accumulated depreciation	<u>3,885,576</u>			<u>4,100,366</u>
Net carrying amount	<u>\$ 4,320,381</u>			<u>\$ 4,347,872</u>

Changes in the components of the general fixed asset account group are summarized as follows:

	Balance April 1, <u>2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance March 31, <u>2004</u>
Land and Buildings	\$ 915,793	\$ -	\$ -	\$ 915,793
Office Equipment	74,142	12,275	7,098	79,319
Senior Center Equipment	11,750	390	-	12,140
Parks	215,560	60,494	-	276,054
Police Equipment	117,835	29,531	1,478	145,888
Election Equipment	35,320	-	4,672	30,648
Fire Equipment	1,057,595	328,114	-	1,385,709
Library	5,227	-	-	5,227
Other Equipment	<u>74,435</u>	<u>5,111</u>	<u>1,892</u>	<u>77,654</u>
Total	<u>\$ 2,507,657</u>	<u>\$ 435,915</u>	<u>\$ 15,140</u>	<u>\$ 2,928,432</u>

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

6. DEFINED CONTRIBUTION PENSION PLAN

The Spring Arbor Township Pension Plan provides pension benefits for all Township Officials, the Building Inspector, and all other employees who work at least twenty hours per week on a regular basis, and who choose to belong to the plan. This benefit is a bank trust type plan administered by a Pension Committee under the provisions of Section 401(a) of the Internal Revenue Code. Plan provisions and contribution requirements are established and may be amended by the Township Board. The plan is held and administered by Aetna Life Insurance and Annuity Company.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depends solely on the amount contributed to the participant's account and the returns earned on the investments of those contributions.

As amended effective April 1, 1986, the Township may, but is not required to, make a "discretionary contribution" for a plan year to the accounts of all eligible participants. The amount of the contribution is based upon participant compensation for the plan year.

There were 11 members in the plan at March 31, 2004. Contributions to the pension fund by the Township were \$30,065 which is 9% of covered payroll. Employee contributions totaled \$21,560.

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

7. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Township maintains two Enterprise Funds which provide sewage and water services (utility segment). Segment information for the year ended March 31, 2004, is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>
Operating revenue	\$ 450,970	\$ 162,406
Depreciation expense	163,468	51,322
Operating loss	(216,059)	(55,780)
Non-operating revenue	25,842	1,660
Capital contributions	170,625	71,656
Net income (loss)	(19,592)	17,536
Property, plant and equipment additions	170,625	71,656
Net working capital	75,746	184,910
Total assets	3,858,396	2,005,253
Total equity	3,829,915	2,005,055

8. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of March 31, 2004, is as follows:

	<u>Receivable</u>	<u>Payable</u>
Due to/from other funds:		
General Fund	\$ 11,141	\$ -
Special Revenue Fund – Building Inspection Department	-	11,141
	<u>\$ 11,141</u>	<u>\$ 11,141</u>

TOWNSHIP OF SPRING ARBOR

Notes To Financial Statements

9. CONTRIBUTED CAPITAL

The changes in the Township's contributed capital accounts for its proprietary funds for the year ended March 31, 2004, were as follows:

	<u>Enterprise</u>	
	<u>Sewer</u>	<u>Water</u>
Beginning balance	\$ 1,449,797	\$ 1,652,567
Less: depreciation on contributed assets acquired with capital grants	<u>(89,434)</u>	<u>(45,699)</u>
Ending balance	<u>\$ 1,360,363</u>	<u>\$ 1,606,868</u>

As required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, effective April 1, 2001, the Township now recognizes capital contributions as revenue in the period received, rather than as an addition to contributed capital.

* * * * *

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS**

GENERAL FUND

SPRING ARBOR TOWNSHIP
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Amended Budget and Actual
General Fund
For the Year Ended March 31, 2004

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenue			
Taxes:			
Current property taxes	\$ 126,000	\$ 124,867	\$ (1,133)
Delinquent property taxes	8,000	7,479	(521)
Unpaid personal property taxes	200	299	99
Total taxes	<u>134,200</u>	<u>132,645</u>	<u>(1,555)</u>
Licenses and permits:			
Business licenses	200	400	200
Trailer permits	1,800	1,598	(202)
Total licenses and permits	<u>2,000</u>	<u>1,998</u>	<u>(2)</u>
State shared revenue:			
M-60 Task Force grant	2,250	2,948	698
Liquor licenses	1,700	748	(952)
Sales tax	570,000	554,577	(15,423)
Total state shared revenue	<u>573,950</u>	<u>558,273</u>	<u>(15,677)</u>
Contributions	<u>-</u>	<u>1,500</u>	<u>1,500</u>
Other revenue:			
Service fees	24,000	17,520	(6,480)
Rental fees	1,000	200	(800)
Land division fees	1,200	1,000	(200)
Administrative charges:			
Sewer	12,000	15,552	3,552
Water	5,600	9,909	4,309
Private road maintenance	200	158	(42)
Cemetery foundations	4,500	2,941	(1,559)
Grave openings	11,000	10,265	(735)
Cemetery lot sales	3,500	3,800	300
Park user fees	300	450	150
Senior Center user fees	4,300	4,820	520
Parking fines	200	210	10
Fines and forfeits	13,000	11,734	(1,266)
Property rental	10,800	10,800	-
Cable TV royalties	20,000	23,757	3,757
Reimbursements	8,750	11,027	2,277
Interest and other revenue	13,750	6,480	(7,270)
Total other revenue	<u>134,100</u>	<u>130,623</u>	<u>(3,477)</u>
Total revenue	<u>844,250</u>	<u>825,039</u>	<u>(19,211)</u>

Continued...

SPRING ARBOR TOWNSHIP
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Amended Budget and Actual (Continued)
General Fund
For the Year Ended March 31, 2004

	Amended Budget	Actual	Variance - Favorable (Unfavorable)
Expenditures			
Legislative	\$ 36,386	\$ 29,737	\$ 6,649
General Government:			
Township Supervisor	63,383	60,657	2,726
Elections	3,630	2,147	1,483
Assessor	62,773	57,656	5,117
Township Clerk	59,561	54,670	4,891
General Office	48,500	39,782	8,718
Board of Review	1,900	1,891	9
Treasurer	58,786	56,086	2,700
Township Hall	14,100	11,990	2,110
Post Office	15,824	4,390	11,434
Maintenance Building	1,300	1,703	(403)
Township Property	16,750	12,000	4,750
Cemetery	38,023	31,008	7,015
Total general government	384,529	333,980	50,549
Public Safety:			
Police	191,250	172,980	18,270
Communications	6,100	3,251	2,849
Planning Commission	42,900	33,617	9,283
Zoning Board of Appeals	2,150	1,238	912
Township Street Lights	300	300	-
Total public safety	242,700	211,386	31,314
Public Works:			
Streets and Roads	800	751	49
Private Streets and Roads	200	240	(40)
Total public works	1,000	991	9
Recreational and Cultural:			
Gallagher Park	27,604	21,592	6,012
Historical Committee	4,373	4,119	254
Senior Center	37,400	25,621	11,779
Total recreational and cultural	69,376	51,332	18,044
Total expenditures	733,991	627,426	106,565
Revenue over expenditures	110,259	197,613	87,354

Continued...

SPRING ARBOR TOWNSHIP
Statement of Revenue, Expenditures, and Changes
in Fund Balance - Amended Budget and Actual (Concluded)
General Fund
For the Year Ended March 31, 2004

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Other financing uses			
Operating transfers out	\$ (291,042)	\$ (186,624)	\$ 104,418
Revenue over (under) expenditures and other financing uses	(180,783)	10,989	191,772
Fund balance, beginning of year	<u>347,133</u>	<u>347,133</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 166,350</u></u>	<u><u>\$ 358,122</u></u>	<u><u>\$ 191,772</u></u>

SPECIAL REVENUE FUNDS

SPRING ARBOR TOWNSHIP
Combining Balance Sheet
Special Revenue Funds
March 31, 2004

	Street Light Fund	Fire Millage	Building Inspection Department	Public Improvement Fund	Totals
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 15,869	\$ 67,896	\$ 46,406	\$ 1,019	\$ 131,190
Investments	-	-	-	131,697	131,697
Taxes receivable	-	8,771	-	-	8,771
Special assessments receivable	2,051	-	-	-	2,051
<u>TOTAL ASSETS</u>	\$ 17,920	\$ 76,667	\$ 46,406	\$ 132,716	\$ 273,709
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ -	\$ 175	\$ -	\$ -	\$ 175
Due to other funds	-	-	11,141	-	11,141
Total liabilities	-	175	11,141	-	11,316
Fund balances					
Unreserved, undesignated	17,920	76,492	35,265	132,716	262,393
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 17,920	\$ 76,667	\$ 46,406	\$ 132,716	\$ 273,709

SPRING ARBOR TOWNSHIP
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Special Revenue Funds
For the Year Ended March 31, 2004

	Street Light Fund	Fire Millage	Building Inspection Department	Public Improvement Fund	Totals
Revenue					
Property taxes	\$ -	\$ 155,261	\$ -	\$ -	\$ 155,261
Current special assessments	31,746	-	-	-	31,746
Delinquent special assessments	1,987	-	-	-	1,987
Permit revenue	-	-	86,237	-	86,237
Interest and other revenue	-	10,970	-	2,541	13,511
Total revenue	33,733	166,231	86,237	2,541	288,742
Expenditures					
Public safety	-	198,773	68,653	-	267,426
Public works	32,141	-	-	-	32,141
Capital outlay	-	326,449	-	140,217	466,666
Total expenditures	32,141	525,222	68,653	140,217	766,233
Revenue over (under) expenditures	1,592	(358,991)	17,584	(137,676)	(477,491)
Other financing sources					
Operating transfer in	-	186,624	-	-	186,624
Revenue and other sources over expenditures	1,592	(172,367)	17,584	(137,676)	(290,867)
Fund balances, beginning of year	16,328	248,859	17,681	270,392	553,260
Fund balances, end of year	<u>\$ 17,920</u>	<u>\$ 76,492</u>	<u>\$ 35,265</u>	<u>\$ 132,716</u>	<u>\$ 262,393</u>

SPRING ARBOR TOWNSHIP
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Amended Budget and Actual
Street Light Fund
For the Year Ended March 31, 2004

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenue			
Current special assessments	\$ 34,000	\$ 31,746	\$ (2,254)
Delinquent special assessments	1,900	1,987	87
Total revenue	35,900	33,733	(2,167)
Expenditures			
Public works	33,000	32,141	859
Revenue over (under) expenditures	2,900	1,592	(1,308)
Fund balance, beginning of year	16,328	16,328	-
Fund balance, end of year	<u>\$ 19,228</u>	<u>\$ 17,920</u>	<u>\$ (1,308)</u>

SPRING ARBOR TOWNSHIP
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Amended Budget and Actual
Fire Millage
For the Year Ended March 31, 2004

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenue			
Property taxes	\$ 156,000	\$ 155,261	\$ (739)
Interest revenue	-	10,970	10,970
Total revenue	<u>156,000</u>	<u>166,231</u>	<u>10,231</u>
Expenditures			
Public safety	213,554	198,773	14,781
Capital outlay	327,550	326,449	1,101
Total expenditures	<u>541,104</u>	<u>525,222</u>	<u>15,882</u>
Revenue (under) expenditures	(385,104)	(358,991)	26,113
Other financing sources			
Operating transfer in	<u>508,924</u>	<u>186,624</u>	<u>(322,300)</u>
Revenue and other sources over (under) expenditures	123,820	(172,367)	(296,187)
Fund balance, beginning of year	<u>248,859</u>	<u>248,859</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 372,679</u></u>	<u><u>\$ 76,492</u></u>	<u><u>\$ (296,187)</u></u>

SPRING ARBOR TOWNSHIP
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Amended Budget and Actual
Building Inspection Department
For the Year Ended March 31, 2004

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenue			
Permit revenue	\$ 83,800	\$ 86,237	\$ 2,437
Expenditures			
Public safety:			
Building inspection	57,400	40,893	16,507
Electrical inspection	10,600	9,390	1,210
Mechanical/plumbing inspection	20,000	18,370	1,630
Total expenditures	88,000	68,653	19,347
Revenue over (under) expenditures	(4,200)	17,584	21,784
Fund balance, beginning of year	17,681	17,681	-
Fund balance, end of year	<u>\$ 13,481</u>	<u>\$ 35,265</u>	<u>\$ 21,784</u>

SPRING ARBOR TOWNSHIP
Statement of Revenue, Expenditures,
and Changes in Fund Balance - Amended Budget and Actual
Public Improvement Fund
For the Year Ended March 31, 2004

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenue			
Interest and other revenue	\$ 2,019	\$ 2,541	\$ 522
Expenditures			
Capital outlay	<u>169,324</u>	<u>140,217</u>	<u>29,107</u>
Revenue over (under) expenditures	(167,305)	(137,676)	29,629
Other financing sources			
Operating transfer in	<u>92,821</u>	<u>-</u>	<u>(92,821)</u>
Revenue and other sources (under) expenditures	(74,484)	(137,676)	(63,192)
Fund balance, beginning of year	<u>270,392</u>	<u>270,392</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 195,908</u></u>	<u><u>\$ 132,716</u></u>	<u><u>\$ (63,192)</u></u>

ENTERPRISE FUNDS

SPRING ARBOR TOWNSHIP
Combining Balance Sheet
Enterprise Funds
March 31, 2004

	Sewer Fund	Water Fund	Totals
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents	\$ 92,311	\$ 181,023	\$ 273,334
Receivables:			
User fees	7,537	2,606	10,143
Connection fees - current portion	-	200	200
Delinquent user and connection fees	4,379	1,279	5,658
Total current assets	<u>104,227</u>	<u>185,108</u>	<u>289,335</u>
Restricted assets			
Replacement account investments	679,244	-	679,244
Improvement account investments	546,598	-	546,598
Total restricted assets	<u>1,225,842</u>	<u>-</u>	<u>1,225,842</u>
Other assets			
Accounts receivable - connection fees, net of current portion	<u>-</u>	<u>600</u>	<u>600</u>
Fixed assets, net	<u>2,528,327</u>	<u>1,819,545</u>	<u>4,347,872</u>
<u>TOTAL ASSETS</u>	<u>\$ 3,858,396</u>	<u>\$ 2,005,253</u>	<u>\$ 5,863,649</u>

	Sewer Fund	Water Fund	Totals
<u>LIABILITIES AND FUND EQUITY</u>			
Current liabilities			
Accounts payable	\$ 28,481	\$ 198	\$ 28,679
Fund equity			
Contributed capital	1,360,363	1,606,868	2,967,231
Retained earnings:			
Reserved for replacement and improvements	1,225,842	-	1,225,842
Unreserved	1,243,710	398,187	1,641,897
Total retained earnings	2,469,552	398,187	2,867,739
Total fund equity	3,829,915	2,005,055	5,834,970
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	\$ 3,858,396	\$ 2,005,253	\$ 5,863,649

SPRING ARBOR TOWNSHIP
Combining Statement of Revenue, Expenses,
and Changes in Retained Earnings
Enterprise Funds
For the Year Ended March 31, 2004

	Sewer Fund	Water Fund	Totals
Operating revenue			
Connection fees	\$ 69,300	\$ 33,670	\$ 102,970
User fees	370,884	126,177	497,061
Penalties	7,814	2,559	10,373
Other	2,972	-	2,972
	<hr/>	<hr/>	<hr/>
Total operating revenue	450,970	162,406	613,376
	<hr/>	<hr/>	<hr/>
Operating expenses			
Administrative fees	11,528	8,858	20,386
Pension	1,007	-	1,007
Office expenses	1,940	586	2,526
Professional services	25,793	8,045	33,838
Insurance and bonds	5,445	1,014	6,459
Utilities	49,514	88	49,602
Water usage	-	111,861	111,861
Treatment charges	207,096	-	207,096
Maintenance	201,075	293	201,368
Depreciation	163,468	51,322	214,790
Other	163	36,119	36,282
	<hr/>	<hr/>	<hr/>
Total operating expenses	667,029	218,186	885,215
	<hr/>	<hr/>	<hr/>
Operating loss	(216,059)	(55,780)	(271,839)
	<hr/>	<hr/>	<hr/>
Non-operating revenue (expense)			
Interest revenue	27,143	1,686	28,829
Interest expense	(1,301)	(26)	(1,327)
	<hr/>	<hr/>	<hr/>
Total non-operating revenue	25,842	1,660	27,502
	<hr/>	<hr/>	<hr/>
Net loss before capital contributions	(190,217)	(54,120)	(244,337)
	<hr/>	<hr/>	<hr/>
Capital contributions	170,625	71,656	242,281
	<hr/>	<hr/>	<hr/>
Net income (loss)	(19,592)	17,536	(2,056)
	<hr/>	<hr/>	<hr/>
Adjustments to net income (loss)			
Add-back of depreciation on assets acquired with capital grants	89,434	45,699	135,133
	<hr/>	<hr/>	<hr/>
Increase in retained earnings	69,842	63,235	133,077
	<hr/>	<hr/>	<hr/>
Retained earnings, beginning of year	2,399,710	334,952	2,734,662
	<hr/>	<hr/>	<hr/>
Retained earnings, end of year	\$ 2,469,552	\$ 398,187	\$ 2,867,739
	<hr/>	<hr/>	<hr/>

SPRING ARBOR TOWNSHIP
Combining Statement of Cash Flows
Enterprise Funds
For the Year Ended March 31, 2004

	Sewer Fund	Water Fund	Totals
Cash flows from operating activities			
Operating loss	\$ (216,059)	\$ (55,780)	\$ (271,839)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	163,468	51,322	214,790
Changes in assets and liabilities:			
Receivables	117	771	888
Accounts payable	3,213	(2,179)	1,034
Net cash provided (used) by operating activities	(49,261)	(5,866)	(55,127)
Cash flows from capital and related financing activities			
Purchase of fixed assets	(170,625)	(71,656)	(242,281)
Principal paid on bonds	(25,000)	-	(25,000)
Interest paid on bonds	(1,250)	-	(1,250)
Proceeds from capital contributions	170,625	71,656	242,281
Net cash (used) by capital and related financing activities	(26,250)	-	(26,250)
Cash flows from investing activities			
Interest received on investments	27,092	1,660	28,752
Net (decrease) in cash and cash equivalents	(48,419)	(4,206)	(52,625)
Cash and cash equivalents, beginning of year	1,366,572	185,229	1,551,801
Cash and cash equivalents, end of year	\$ 1,318,153	\$ 181,023	\$ 1,499,176
Balance sheet classification of cash and cash equivalents			
Cash and cash equivalents	\$ 92,311	\$ 181,023	\$ 273,334
Restricted cash equivalents	1,225,842	-	1,225,842
	\$ 1,318,153	\$ 181,023	\$ 1,499,176

Non-cash transactions

During the year, the Township received donated sewer and water lines from contractors in the amount of \$170,625 and \$71,656 respectively. These transactions did not involve cash.

FIDUCIARY FUNDS

SPRING ARBOR TOWNSHIP
Combining Balance Sheet
Fiduciary Funds
March 31, 2004

	Tax Collection Agency Fund	Nonexpendable Trust Fund	Total
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ -	\$ 12,270	\$ 12,270
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Due to other funds	\$ -	\$ -	\$ -
Fund balance			
Reserved for endowment	-	12,270	12,270
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ -</u>	<u>\$ 12,270</u>	<u>\$ 12,270</u>

SPRING ARBOR TOWNSHIP
Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended March 31, 2004

	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, End of Year</u>
<u>TAX COLLECTION FUND</u>				
Assets				
Cash and cash equivalents	\$ 20	\$ 4,814,555	\$ 4,814,575	\$ -
Liabilities				
Due to other funds	\$ 20	\$ 4,814,555	\$ 4,814,575	\$ -
Due to other governmental units	-	4,476,146	4,476,146	-
Total liabilities	\$ 20	\$ 9,290,701	\$ 9,290,721	\$ -



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

June 16, 2004

To the Board of Trustees
Township of Spring Arbor

We have audited the general purpose financial statements of the *Township of Spring Arbor* for the year ended March 31, 2004, and have issued our report thereon dated June 16, 2004. Professional standards require that we provide you with the following information related to your audit.

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter dated May 20, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Township of Spring Arbor. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Spring Arbor are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended March 31, 2004. We noted no transactions entered into by the Township of Spring Arbor during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of depreciable fixed assets in the Sewage Disposal and Water Enterprise Funds is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Township of Spring Arbor that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed several audit adjustments that, in our judgment, both individually and in the aggregate, had a significant effect on the Township, all of which were recorded by the Township, and are reflected in the financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Spring Arbor's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This information and the attached memorandum is intended for the use of the Board of Trustees and management of the Township of Spring Arbor and the State of Michigan. However, this report is a matter of public record, and its distribution is not limited.

Very truly yours,

Rehmann Johnson

SPRING ARBOR TOWNSHIP

COMMENTS AND RECOMMENDATIONS For The Year Ended March 31, 2004

During our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. This memorandum does not affect our report dated June 16, 2004, on the financial statements of Spring Arbor Township.

We will review the status of these comments during our next audit engagement. We have already discussed many of these matters with Township management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the Township in implementing the recommendations.

Automation of Water and Sewer Funds

Presently, the Water and Sewer Funds of Spring Arbor Township are maintained manually in ledger books. Individual entries are entered into the books and then totaled at the end of each month by the Treasurer. These totals are given to the Clerk, who then makes a journal entry so that this activity can be accounted for in the general ledger of the Township.

This appears to be an area in which the Township has room for improvement. The current process is adequate in getting the activity recorded in these funds; however, it appears as though there is an extra step involved that could easily be taken out if the Township were to automate these funds.

The Township is a growing entity, and correspondingly, operations are getting more complex. Further, mandated reporting requirements have become more stringent. The Township's financial staff do a more than adequate job of financial reporting, but would benefit from the review and refinement of workflow procedures and automated capability in these areas.

GASB Statement No. 34 – New Reporting Requirements

In 1999, the Governmental Accounting Standards Board issued GASB Statement No. 34, which significantly modifies the financial reporting requirements for local governments. The standard is being phased in over the next few years depending on the annual revenues of each entity. Spring Arbor Township is considered a Phase 3 organization, and accordingly, the provisions of this statement will apply to the Township for the fiscal year that started April 1, 2004. These significant changes will include the following:

- A new government-wide financial statement, reporting on the full accrual basis of accounting, which will accompany the traditional reporting model (on a modified-accrual basis)
- Modification of the manner in which the traditional model will be reported
- Inclusion of a new narrative section entitled "Management Discussion and Analysis" which will present summarized financial results and inform the user of the financial statements of significant financial developments at the District during the year

SPRING ARBOR TOWNSHIP

COMMENTS AND RECOMMENDATIONS (Concluded) For The Year Ended March 31, 2004

One major change will encompass accounting for and recording capital (fixed) assets used in governmental operations. The standard essentially requires taking an inventory of all capital assets (including streets, sidewalks, and other infrastructure assets), and will require the Township to record depreciation on those assets. Presently, the Township does not maintain records of sufficient detail to support this type of analysis. Accordingly, we recommend that the Township obtain appropriate software to track existing capital assets, additions, deletions, and annual depreciation. In addition, existing capital assets should be inventoried to obtain a starting point for this new accounting requirement.

Furthermore, as with all governmental units, we recommend that the Township develop an implementation strategy and timetable, which will help identify the major areas affecting your financial statements, and provide for a timeline for implementation of the required changes. We anticipate that these requirements will require a substantial undertaking for the Township, and we are available to assist in complying with these new standards.

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